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By Dr Rajiv Prabhakar

21 December 2021

# Sidecar Savings



## Summary

- 1 Introduction
- 2 Policy developments
- 3 Sidecar savings and adequate retirement income
- 4 Challenges facing sidecar savings

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## Summary

Sidecar savings are a new policy idea to encourage saving for retirement. A sidecar account is an instant access savings account that is tied to a pension. A sidecar would allow account holders to access savings in the case of an emergency.

There are different models of sidecar accounts and these include the two account and in plan model. A two account model is being trialled in the UK. Under a two account model, a saver makes savings into a sidecar account up to a specified savings cap. Once the savings cap is reached, extra savings are then added on top of the normal pension contributions, thereby adding to pension savings. If a person withdraws money from the sidecar, then they begin saving again in the sidecar until the savings cap is reached again.

There are different arguments for sidecar savings. One set of arguments is rooted in behavioural economics and suggests that common behavioural biases means that the preferable retirement system should be one that includes savings locked in a pension and an instant access sidecar account. A different set of arguments claims that a sidecar can help certain groups overcome barriers to retirement savings caused by pressures from the cost of living.

Sidecar accounts can be placed within debates about having an adequate income in retirement. Having an adequate income in retirement means that it may be important for people to save beyond the default savings rate within automatic enrolment in a workplace pension. This seems important for particular groups such as Generation X (defined as those born between 1965 and 1980) and the self-employed.

Current challenges to sidecar savings include low take-up in the existing UK trial. Moving from an opt-in to an opt-out system for the sidecar may boost enrolment into the accounts. There are a range of other design issues that need exploring for any roll-out of sidecar savings, such as the size of the savings cap in a sidecar account.

## 1

# Introduction

Sidecar savings are a special type of instant access savings account that are tied to a retirement pension.<sup>1</sup> There are many different types of instant access savings accounts, but sidecar savings are different because they are not standalone accounts but are hitched – or a sidecar – to a pension vehicle.

Sidecar savings are proposed as a way of overcoming the barriers that certain groups may face in saving for retirement. A sidecar savings account may offer a means through which people can draw upon savings normally intended for retirement in an emergency.

National Employment Savings Trust (NEST) Insight and the Money and Pensions Service (MaPS) are running a trial of these accounts. NEST is a public corporation of the Department for Work and Pensions. NEST was established by government to ensure all employers have access to a workplace pension scheme that complies with the regulations on the automatic enrolment into a workplace pension. NEST Insight is a research arm of NEST.<sup>2</sup> MaPS is an arm's length body sponsored by the Department for Work and Pensions and which has responsibility for ensuring people in the UK have access to the information they need to make effective financial decisions.<sup>3</sup> Sidecar savings is defined as follows:

‘The sidecar savings model is a hybrid savings tool that combines an accessible ‘emergency’ savings account with traditional defined contribution (DC) retirement saving’.<sup>4</sup>

The Department for Work and Pensions said:

‘NEST Insight’s ‘Sidecar Savings’ trial is an academic research project, looking at how people behave when given the option of having a liquid savings product alongside their workplace pension, and how this impacts their financial wellbeing. To use the sidecar savings model, employees must pay in an amount over and above the auto enrolment minimum contribution level. A worker’s normal

<sup>1</sup> Lily Brodrick, Ruby Wootton and Damon De Ionno, [Hybrid Savings Account Research Revealing Reality Final Report](#), 2018; Will Sandbrook, Matthew Blakstad, Michelle Cremin and Clare Hodgkinson, [Liquidity and sidecar savings](#), NEST Insight, 2017; Matthew Blakstad, Michelle Cremin, Clare Hodgkinson, Stella Martorana and Will Sandbrook, [Liquidity and retirement savings: what’s the right balance?](#), Nest Insight, 2018; Eleanor Cooksey and Will Sandbrook, [Workplace emergency saving. A landscape review of existing evidence](#), NEST Insight July 2021.

<sup>2</sup> National Employment Savings Trust, [About Nest](#)

<sup>3</sup> Money and Pensions Service, [Who we are](#)

<sup>4</sup> Will Sandbrook, Jo Phillips, Matthew Blakstad and Clare Hodgkinson, [Supporting emergency saving. Briefing paper 1 – policy considerations and questions for future research](#), NEST Insight 2020 at p4.



pension contributions continue as usual, with the additional contributions initially flowing into the emergency savings account. If the emergency account hits a certain level, those extra contributions will then start ‘rolling’ into the pension. The idea is to help workers build up an emergency buffer of short-term savings, whilst also helping them to save more for later life if the savings cap is reached’.<sup>5</sup>

## 1.1 Different models of sidecar savings

There are different ways of designing a sidecar account. Two proposed models are the two account and in plan models.<sup>6</sup>

**Two account model:** The saver has a workplace pension and signs up to a separate savings account with a savings provider. The saver sets a savings cap on the sidecar account. The savings provider instructs the employer to make contributions into the sidecar until the savings cap has been reached. Once the cap is reached, further savings are rolled into the pension on top of the normal pension contributions. If money is withdrawn from the sidecar then the saver restarts saving into the sidecar until the cap is met again.

**In plan model:** The employee signs up to save with their employer. The employer pays a pension provider the total contribution made by an employee to a workplace pension as well as emergency savings account. The pension provider divides the contribution between the pension account and the emergency savings account.

## 1.2 Trial of sidecar savings

In 2018, National Employment Savings Trust (NEST) Insight launched a trial of sidecar savings. This trial has attracted international interest.<sup>7</sup> This is run in

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<sup>5</sup> [Department for Work and Pensions, Enabling retirement savings for the self-employed: pensions and long-term savings trials](#)

<sup>6</sup> Will Sandbrook, Jo Phillips, Matthew Blakstad and Clare Hodgkinson, [Supporting emergency saving. Briefing paper 1 – policy considerations and questions for future research](#), NEST Insight 2020.

<sup>7</sup> David S. Mitchell and Gracie Lynne, [Driving Retirement Innovation: Can Sidecar Accounts Meet Consumers' Short- and Long-Term Financial Needs?](#), Issue Brief, The Aspen Institute, 2017; [Lifting the Weight. Solving the consumer debt crisis for families, communities & future generations](#), The Aspen Institute, 2018.

conjunction of the Money and Pensions Service (MaPS). This trial involves a two account model and this is called a Jars savings tool<sup>8</sup>.

The Jars savings tool works in the following way.<sup>9</sup>

1. The saver signs up to a Jars portal.
2. Savers select an emergency savings target which is the amount to save from each pay packet.
3. People open an instant access emergency savings account. This is the emergency savings jar that sits alongside their pension.
4. Savings are then taken from the salary in each pay period and deposited automatically into the emergency Jars savings tool.
5. Once the savings target for the Jars savings tool has been achieved, excess savings are rolled into the automatically enrolled pension on top of the usual automatic enrolment pension contributions.
6. Savers can access the savings in the emergency Jars savings tool at any time. The salary deductions restart into the Jars savings tool until the savings target is reached again.

Tax relief is only provided on pension contributions and not the sidecar. Tax relief is available for private pension contributions worth up to 100% of annual earnings.<sup>10</sup> NEST uses a relief at source method for claiming tax relief which means that NEST claims tax relief from Government for the eligible worker after it receives pension contributions. The basic rate of tax relief is 20%, which means that 20p in tax relief is claimed for each £1 of a worker's contribution. If a worker's contribution is 5% then there is 1% tax relief.<sup>11</sup>

In the NEST Insight trial the Jars savings tool does not attract pension tax relief but any money that is rolled into the pension does qualify for tax relief. The NEST Insight trial involves gathering data on the Jars savings tool for at least a 2 year period. From January 2021, all participating employers will have introduced the Jars tool and there will be 2 years of data gathering.<sup>12</sup>

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<sup>8</sup> Will Sandbrook, Jo Phillips, Matthew Blakstad and Clare Hodgkinson, [Supporting emergency saving. Briefing paper 1 – policy considerations and questions for future research](#), NEST Insight 2020; Annick Kuipers, Jo Phillips, Will Sandbrook; Victoria Foreman, Emily Fu, Isabel Gill, Carol McNaughton Nicholls, Phoebe Ward and Roxanna Prisacaru, [Supporting emergency saving. Briefing paper 2 – early learnings from the employer experience](#), NEST Insight 2020 ; Jo Phillips, Annick Kuipers and Will Sandbrook, [Supporting Emergency Saving. Briefing paper 3 – early learnings of the employee experience of workplace sidecar saving](#), NEST Insight July 2021.

<sup>9</sup> Will Sandbrook, Jo Phillips, Matthew Blakstad and Clare Hodgkinson, [Supporting emergency saving. Briefing paper 1 – policy considerations and questions for future research](#), NEST Insight 2020.

<sup>10</sup> Gov.UK [Tax on your private pension contributions](#)

<sup>11</sup> National Employment Savings Trust, [How do I calculate tax relief?](#)

<sup>12</sup> NEST Insight 2020; Annick Kuipers, Jo Phillips, Will Sandbrook; Victoria Foreman, Emily Fu, Isabel Gill, Carol McNaughton Nicholls, Phoebe Ward and Roxanna Prisacaru, [Supporting emergency saving. Briefing paper 2 – early learnings from the employer experience](#), NEST Insight 2020.



## 1.3

## Different arguments for sidecar savings

Research into sidecar savings asks what portion of workplace savings ought to be liquid (meaning accessible immediately without penalty) and what part of savings should be illiquid (meaning inaccessible before maturity or incurring a penalty if savings are accessed immediately).<sup>13</sup>

## Behavioural economics

One set of arguments is rooted in behavioural economics.<sup>14</sup> Several scholars involved in developing the theory of sidecar savings are also involved in overseeing the NEST Insight trial of sidecar savings in the UK.<sup>15</sup>

Behavioural economics claims that people have a range of common psychological biases that shape economic decisions. Particular attention is paid to mental accounting, which refers to a tendency of people to put related things into different mental boxes. A group of US academics argue that emergency saving accounts can build on the tendency of people to divide short-term from long-term saving:

‘Having a separate rainy-day savings account may facilitate better financial decision making through better mental accounting’.<sup>16</sup>

Other behavioural biases are also thought to support sidecar savings. For example, present bias refers to the tendency of people to prefer getting things today than tomorrow. Theorists of behavioural economics argue that if there are different preferences among the population about whether they receive rewards today rather than tomorrow, then the optimal retirement savings system is one which contains both rainy day accounts as well as illiquid accounts<sup>17</sup>.

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<sup>13</sup> John Beshears, James Choi, Christopher Clayton, Christopher Harris, David Laibson and Brigitte Madrian, [Optimal Illiquidity in the Retirement Savings System](#), National Bureau of Economic Research Working Paper NB14-05, 2014.

<sup>14</sup> John Beshears, James Choi, Christopher Clayton, Christopher Harris, David Laibson and Brigitte Madrian, [Optimal Illiquidity in the Retirement Savings System](#), National Bureau of Economic Research Working Paper NB14-05, 2014; John Beshears, James J. Choi, J. Mark Iwry, David C. John, David Laibson and Brigitte C. Madrian, ‘[Building Employer Savings through Employer-Sponsored Rainy-Day Savings Accounts](#)’, *Tax Policy and the Economy*, volume 34, 2020, pp. 43-90.

<sup>15</sup> Details are available at [Liquidity and workplace pensions: sidecar savings trial](#), NEST Insight. Academics involved in the trial include Sarah Holmes Berk, John Beshears, James Choi, David Laibson and Brigitte Madrian.

<sup>16</sup> John Beshears, James J. Choi, J. Mark Iwry, David C. John, David Laibson and Brigitte C. Madrian, ‘[Building Employer Savings through Employer-Sponsored Rainy-Day Savings Accounts](#)’, *Tax Policy and the Economy*, volume 34, 2020, pp. 43-90, at p46.

<sup>17</sup> John Beshears, James Choi, Christopher Clayton, Christopher Harris, David Laibson and Brigitte Madrian, [Optimal Illiquidity in the Retirement Savings System](#), National Bureau of Economic Research Working Paper NB14-05, 2014.

## Cost of living

Behavioural economics provides one important set of arguments for sidecar savings. Another set of arguments suggest that having an instant access savings account tied to a pension may make it easier for certain groups to overcome the barriers to retirement savings. A sidecar may allow people to build up pension savings, without the concern that they will not be able to access the money in an emergency. This may be important for certain groups such as young people, the self-employed or those working in the gig economy because they may have volatile incomes that mean they may need access to the money in an emergency.

Covid-19 is likely to have increased cost of living pressures faced by parts of the population.<sup>18</sup> Many better off households may have built up savings during the pandemic as a result of working from home rather than commuting. Better off households tend to spend a higher proportion of their income on things like eating out, travel or leisure that have been curtailed by the pandemic. Lower income households spend a greater proportion of their household income on essentials and so faced greater challenges in cutting back on spending as a response to the pandemic.<sup>19</sup>

People may be wary of saving into an illiquid pension as it may mean they cannot access these savings in times of need. However, it may be important for people to save for a pension to ensure they have an adequate income in retirement. Having an instant access sidecar that people can access in an emergency may be a way of overcoming barriers to saving up for retirement. The case for a sidecar here is not based on any claims about behavioural biases and so is distinct from behavioural economics. Rather, sidecar savings are a possible way of addressing cost of living pressures faced by particular groups.

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<sup>18</sup> [Commons Library Research Briefing CBP-9060, Coronavirus: Impact on household savings and debt, 06 July 2021.](#)

<sup>19</sup> Rowena Crawford, Alex Davenport, Robert Joyce and Peter Levell, [Household spending and coronavirus](#), Institute for Fiscal Studies Briefing Note BN279, 2020.

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## 2

## Policy developments

Sidecar savings have been the subject of recent policy discussion. The House of Commons Treasury Committee ran an inquiry on *Household finances: income, saving and debt* and in the final report published on 26 July 2018 noted that:

‘The evidence on the merits of sidecar savings schemes is mixed. The Government should examine the results of NEST’s [National Employment Savings Trust] trial of sidecar savings, and, if it is a success, assist with a wider trial and rollout, including any necessary legislative changes’.<sup>20</sup>

Interest in sidecar savings has also grown since the onset of Covid-19. In April 2021 the Tory Reform Group published a path for recovery from the coronavirus that included plans for sidecar savings:

‘Consult on introducing a new sidecar savings mechanism with automatic enrolment to encourage employees to build up emergency savings’.<sup>21</sup>

In a Westminster Hall debate on Covid-19: Household Debt held on 8 July 2021, Paul Maynard MP (Con, Blackpool North and Cleveleys) asked:

‘Ministers have spoken of replicating the contracting-in model of the workplace pension scheme to create what are known as sidecar savings schemes for those in work. What is actually happening with that?’<sup>22</sup>

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<sup>20</sup> [Treasury Committee, Household finances: income, saving and debt, 2018](#) at p29.

<sup>21</sup> Tory Reform Group One Nation Conservatives, [One Nation Pathway to Recovery](#), 2021.

<sup>22</sup> [HC Deb 8 July 2021 \[Covid-19: Household Debt\]](#).

## 3

## Sidecar savings and adequate retirement income

Sidecar savings can be situated in debates on having an adequate income in retirement.<sup>23</sup> This concerns whether people have enough income to meet their needs in retirement. A key part of this debate highlights a need for people to save for their retirement.

Replacement rates are used to assess whether people will have adequate income in retirement. The replacement rate is the ratio of income after retirement to income before retirement. Replacement rates do not have to be 100% because people may have cost savings in retirement, for example mortgages may have been paid off or there are no commuting costs to work. Different parts of the population may have different replacement rates.

Concern over retirement adequacy has prompted policies such as the automatic enrolment into a workplace pension. Automatic enrolment into a workplace pension was introduced in the UK from 2012. Workers who fall within a band of qualifying earnings are automatically enrolled into a workplace pension. Employees are free to opt-out but otherwise remain members of the workplace scheme and save at a default savings rate. From April 2019, employees save 5% of earnings into a defined contribution scheme. Employers contribute 3% of earnings.<sup>24</sup> This means that there is a total minimum contribution of 8% into an automatically enrolled pension.

Although automatic enrolment has been successful in increasing the membership of workplace pensions, there is a concern that people need to save beyond the default savings rate to have an adequate income in retirement. A Pensions Policy Institute (PPI) briefing note states that:

‘The 8% of band earnings minimum required under automatic enrolment is unlikely to be a sufficient amount to allow people to achieve a retirement income that feels adequate, even for those working and contributing for their whole working life, and so

<sup>23</sup> Pensions and Lifetime Savings Association, [Hitting the Target: A Vision for Retirement Income Adequacy](#), July 2018; Sophia Dimitriadis, Patrick Swain and Les Mayhew, [Slipping between the cracks? Retirement income prospects for Generation X](#) International Longevity Centre 2021; Daniela Silcock, [How can today's pension savers prepare for tomorrow's retirement?](#), Pensions Policy Institute Briefing Note Number 126, June 2021.

<sup>24</sup> [Workplace pensions](#)

decisions about how much to contribute are becoming more complex alongside changes to employment patterns'.<sup>25</sup>

The impact of sidecar savings on retirement income adequacy is uncertain. One possibility is that sidecar savings boost retirement income adequacy by being an extra nudge for retirement savings. For example, in a two account model, any savings beyond the savings cap in the sidecar are rolled into the pension on top of the existing pension contributions.

It is also possible though that a sidecar might mean people divert some money for a pension into the sidecar. In evidence given to the Treasury Committee's *Household finances: income, savings and debt* inquiry in 2018, Matt Upton, Head of Policy for Consumer and Public Services at Citizen's Advice stated that:

'Pensions are the best way to save ... we would encourage the principle [of sidecar savings], but not anything that ebbs away at your pension'.<sup>26</sup>

At the same evidence session, Phil Andrew, Chief Executive of StepChange, a debt advice charity, supported the idea of sidecar savings as long as this did not divert pension savings:

'We think there is a place for this, if it is properly policed and done for extremely specific purposes for a small portion of your overall pot. If it is a small, short-term bridging element, we are okay with that. The concept of allowing it to ebb away your overall pension pot in a material way would be a significant challenge'.<sup>27</sup>

The policy debate also makes a different point that sidecar savings might also be useful for a minority of savers who are already contributing enough for retirement. The Pensions and Lifetime Savings Association (PLSA) published a report in 2018 called *Hitting the Target: A Vision for Retirement Income Adequacy* that recommends contributions of 12% of salary phased in over the 2020s with contributions from both employers and savers to ensure adequate income in retirement. The report acknowledges that:

'for a small proportion of savers, contributions at the rate of 12% of salary could lead to them over-saving. As a result, we recommend that research should be carried out into the effective use of

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<sup>25</sup> Daniela Silcock, [How can today's pension savers prepare for tomorrow's retirement?](#), Pensions Policy Institute Briefing Note Number 126, June 2021.

<sup>26</sup> [Treasury Committee, Oral evidence: Household finances: income, savings and debt, HC 565, 28 Feb 2018.](#)

<sup>27</sup> [Treasury Committee, Oral evidence: Household finances: income, savings and debt, HC 565, 28 Feb 2018.](#)

additional flexibilities, such as ‘opt-down’ and the sidecar mechanism’.<sup>28</sup>

## 3.1

## Sidecar savings and Generation X

In 2021, the International Longevity Centre published a report, *Slipping Between the Cracks: Retirement Prospects for Generation X*, that examines the challenges faced by Generation X (defined as those born between 1965 and 1980) for retirement.<sup>29</sup> According to this report around one-third (30%) of Gen X will reach retirement age without adequate income. It states that roughly half (46%) have defined contribution pensions but most of these people are not contributing enough to these pensions.

The *Slipping Between the Cracks* report says that some sub-groups of Gen X are at higher risk of financial difficulty in later life. These include among others:

- those on benefits
- the self-employed
- renters
- carers<sup>30</sup>

This report identifies key barriers to saving as high rental costs, problems in combining work and care, lack of secure employment, poor access to training and problems in being able to work because of poor health.

One of the aims of sidecar savings is to make it easier for certain groups to overcome the barriers they face in saving for retirement. Certain groups such as the self-employed, those who work in the gig economy, or younger workers may face rapidly changing incomes which may mean that they need access to emergency savings. Having a sidecar may help them save for retirement as it would allow them to tap into savings in an emergency.<sup>31</sup>

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<sup>28</sup> Pensions and Lifetime Savings Association, [Hitting the Target: A Vision for Retirement Income Adequacy](#), July 2018, at p8.

<sup>29</sup> Sophia Dimitriadis, Patrick Swain and Les Mayhew, [Slipping between the cracks? Retirement income prospects for Generation X](#) International Longevity Centre 2021.

<sup>30</sup> Sophia Dimitriadis, Patrick Swain and Les Mayhew, [Slipping between the cracks? Retirement income prospects for Generation X](#) International Longevity Centre 2021, at p3.

<sup>31</sup> Jonathan Lima-Matthews and Tom Purvis [How to solve the self-employed savings crisis](#), The Association of Independent Professionals and the Self-Employed, 2018; Emily Scurrah, Alice Martin, Aidan Harper and Rachel Laurence, [Beyond the Gig Economy. Empowering the Self-Employed Workforce](#), New Economics Foundation, 2019.



The *Slipping Between the Cracks* report says that:

‘Increase access to ‘sidecar’ savings vehicles, in particular by enabling employees to use sidecars alongside workplace pensions and to make contributions directly from their salaries.’<sup>32</sup>

The International Longevity Centre report *Slipping Between the Cracks* mentions the self-employed as one of the sub-groups of Gen X that may need particular help with saving. It recommends:

‘Explore mechanisms for extending AE to self-employed adults – potentially via the tax system – with an option to save into either a traditional pension or a sidecar savings vehicle.’<sup>33</sup>

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<sup>32</sup> Sophia Dimitriadis, Patrick Swain and Les Mayhew, [Slipping between the cracks? Retirement income prospects for Generation X](#) International Longevity Centre 2021, at p5.

<sup>33</sup> Sophia Dimitriadis, Patrick Swain and Les Mayhew, [Slipping between the cracks? Retirement income prospects for Generation X](#) International Longevity Centre 2021, at p6.

## 4

# Challenges facing sidecar savings

Sidecar savings are a new policy idea. The challenges facing sidecar savings will become clearer as the NEST Insight trial unfolds. Some immediate challenges include the following.

### 4.1

## Low take-up

A review of evidence on workplace emergency saving published by NEST Insight notes that there has been low initial take-up by employees of the Jars savings tool in the NEST Insight trial.

‘In our own trial, early data suggests that around 1% of employees offered Jars have taken it up so far. The roll-out of Jars has coincided with the pandemic – a period during which the employer focus and capacity to promote take-up may have been limited. Employees, too, may have faced additional barriers to participating. However, these levels are not out of line with what we see, at least anecdotally, in other examples, with providers and employers often reporting take-up rates below 5% in total, even when supported by employers’ promotional activity’.<sup>34</sup>

This coronavirus pandemic is cited as a possible reason for the low take-up. But take-up may also be linked to the opt-in nature of the Jars savings tool as employees have to sign in. One possible response to low-take-up is to move from an opt-in to an opt-out enrolment system, thereby using a tendency of people to stick to the status quo to boost enrolment. A NEST Insight Briefing Paper on the Jars trial states:

‘An opt-out joining mechanism could overcome not just the barriers to starting to sign up to save, but also the friction in the sign-up journey ... If an appropriate legal and data-sharing framework could be put in place, we think that the employer could provide the information required to set up a savings account on behalf of the employee’.<sup>35</sup>

<sup>34</sup> Eleanor Cooksey and Will Sandbook, [Workplace emergency saving. A landscape review of existing evidence](#), NEST Insight July 2021, at p28.

<sup>35</sup> Jo Phillips, Annick Kuipers and Will Sandbrook, [Supporting Emergency Saving. Briefing paper 3 – early learnings of the employee experience of workplace sidecar saving](#), NEST Insight July 2021, at p 23.

## 4.2

## Design issues

Sidecar savings are at an early stage of development and there remains a set of design issues to be addressed. The Aspen Institute in the US has published a primer on sidecar savings that outlines some of the key design issues.<sup>36</sup>

The primer highlights the following issues.

- Which institutions should deliver sidecar savings? This might include Government, employers or public-private partnerships.
- Should employees be automatically enrolled into sidecar accounts? This links directly to the point above about low take-up.
- Should any withdrawal restrictions be placed on sidecar accounts?
- What should be the size of the savings cap in a sidecar account?
- What incentives should there be for savings into sidecar accounts?
- What regulations should be in place to enable the setting of sidecar accounts?

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<sup>36</sup> David S. Mitchell, [Building a More Robust and Inclusive US Retirement System Amid a Changing Economy](#), The Aspen Institute, 2017.

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